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SUBJECT: GRAFT, BRIBES, AND SWEETHEART DEALS: THE RISE (AND FALL?) OF CORRUPTION IN EGYPT

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Classified by Minister-Counselor for Economic and Political Affairs William R. Stewart for reasons 1.4 (b) and (d).

11. (SBU) Summary: Corruption in Egypt, long a concern of investors, opposition politicians and average Egyptians trying to keep on the good side of shady officials, is receiving renewed attention from civil society activists, media commentators, the Egyptian government and even the Arab League. But opponents of graft have yet to demonstrate the ability to seriously challenge the opaque dealings that are knit into the economic, social and political fabric here. End summary.

12. (U) For the past decade, Egypt has consistently ranked in the middle of the pack of developing nations in Transparency International's corruption index. Egypt's 2006 ranking was 3.3 on a scale of 1 (high corruption) to 10 (no corruption), the same rank as Brazil, India, and Mexico, but significantly worse than regional neighbors such as Jordan, Tunisia, and Kuwait.

A Cost of Doing Business in Egypt

13. (SBU) Ahmed Ashour, a professor of management at Alexandria University and a Transparency International contact in Egypt, told an October gathering of donor representatives that the typical Egyptian firm has to make unofficial payments of 1.3 percent of sales to "get things done," midway between the average 2.8 percent for the Middle East and North Africa, and 0.1 percent for developed nations.

For example, "extralegal" payments by small-to-medium enterprises to obtain business licenses account for anywhere from 15 percent to 90 percent of licensing costs, according to one study. Ashour said that the prevalence of corruption has increased in Egypt in the last 20 years, although investigation and prosecution of corruption have increased as well.

14. (C) Longtime Embassy contact Hitler Tantawi, retired

chairman of the government's financial watchdog, Administrative Control Authority, echoed Ashour's sentiment, noting that corruption in Egypt has traditionally been a "horizontal" problem among low-level civil servants. The privatization and economic opening of recent years have created new opportunities for "vertical corruption" at upper levels of government affecting state resources, he said.

"He Has His Ways with the Government"

¶15. (SBU) In Egypt's centralized and inflated bureaucracy, enticements to corruption now exist everywhere from high-level state concessions to police officers on the street. According to a study commissioned by USAID, six million Egyptians work for the executive branch of government, not including state-owned enterprises, putting a quarter of the workforce in positions of low pay but relatively significant power over their fellow citizens. For example, mid-level Egyptian diplomats earn \$200 USD a month, less than the average expatriate nanny.

¶16. (SBU) Perhaps as a result of low government salaries, petty corruption -- such as slipping a few pounds to a police officer to avoid a traffic ticket -- is routine business here. Egyptian school teachers supplement their low salaries by tutoring students, fostering a culture of corruption from the earliest ages by requiring students to pay for after-hours study in order to pass. An official of a business association in Assiut told econoff during a recent visit that one small manufacturer gets away with employing 70 workers, while paying social-security taxes on only 23,

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because "he has his ways with the government."

From Low to High

¶17. (U) Among others who reportedly failed to get their way with the government recently was National Democratic Party (NDP) parliamentarian Emad al-Gelda, vice chairman of the Youth Committee of the People's Assembly. In October, the public prosecutor charged Gelda and 11 others, including employees of the General Authority for Petroleum and oil-company owners, with bribery to leak information on oil deposits in the Western desert.

¶18. (S) Profiteering within the Ministry of Defense is also a problem. Fees demanded by NASPO, a services company owned by the Ministry of Defense, and its subsidiary Thahab Travel Company are perennial challenges for anyone doing business with the MoD (ref A). Representatives of the Apache Oil company have complained to emboffs that MoD requires Apache to hire the Ministry to de-mine areas where Apache will drill, regardless of whether the areas were ever mined. According to Apache, MoD also charges several times more than other contractors for its demining services.

To Higher

¶19. (C) Such anecdotes and gossip about corruption are a common currency of Cairo's cafe culture, a tradition readily taken up by Egypt's bloggers on the internet. The most titillating stories focus on the top, or at least near it: the sweetheart deals and strong-arm business practices of Alaa Mubarak, eldest son of the president, who avidly avoids public attention. Public perceptions about Alaa's financial interests affect the political climate, whether or not they are true. In fact, the most widespread account of high-level corruption in recent years was in a work of fiction -- the wildly popular 2002 novel *Yakoubian Building*, which was

released as a movie earlier this year (ref B). The story depicts a political operative selling a seat in parliament for 1.5 million Egyptian pounds (USD 261,000). The character is clearly modeled on Kamal el-Shazly, a former minister for parliamentary affairs. In the novel, the unnamed "big man" -- assumed to refer to President Mubarak or Alaa -- then seizes a piece of the new parliamentarian's lucrative auto dealership.

Red Lines in the Media

¶10. (U) Egyptian television news analysts and newspaper columnists frequently complain about corruption, but tend to avoid specific charges aside from reports on court or legislative proceedings. The media has closely followed the court case and parliamentary inquiry into the February sinking of the al-Salam ferryboat, in which more than a thousand passengers drowned (ref C). Reports have noted the strident calls by Muslim Brotherhood parliamentarians for a full public disclosure of the results of the inquiry.

¶11. (U) The press also reported former parliamentarian Talaat al-Sadat's questions about the fortune of steel magnate Ahmed Ezz, an intimate of Gamal Mubarak. The pinnacle of the Egyptian government still remains off-limits, however. The editor of the independent Al-Masry Al-Yom newspaper published a column in October lauding Gamal's intentions but stating that he is despised by the people because he surrounds himself with corrupt aides. The column's treatment of Gamal mirrors the common practice of the press to avoid direct associations between President Mubarak and corruption charges. Egyptian journalists have charged that a new draft press law would have a chilling effect on the media by instituting prison time or heavy fines against journalists who cast aspersions on the private finances of individuals (ref D).

¶12. (U) Corruption is a favorite target of the opposition

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newspaper al-Wafd, which cited unnamed government agencies in an October report that the government receives 73,000 complaints about corruption each year, costing the economy 50 billion Egyptian pounds (USD 8.7 billion, or nine percent of GDP). The story went on to blame corruption for poverty and unemployment in Egypt, a common theme of political and civil-society critics of corruption.

¶13. (U) In total, the Egyptian media reported 235 crimes related to corruption during the first six months of 2006, according to a survey by the Maat Center for Human Rights and Constitutional Studies. Nearly 60 percent involved embezzlement or misuse of public funds or property, while others were related to bribery, forgery, and profiteering. As in other anti-corruption reports, the study blamed Egypt's strong executive branch, weak parliament, and influence of the President over the judiciary for hindering investigations of corruption.

Civil Society, Arab League to the Rescue?

¶14. (S) The civil society organization Shayfeenkum ("We are watching you") published a newspaper advertisement in early December calling on the government to uphold its commitments under the U.N. Convention Against Corruption, generating a prime-time television appearance for a group spokeswoman. (Note: The Embassy supported Shayfeenkum's pilot program to raise awareness about corruption through democracy program funds. End note.) The spokeswoman told poloff that the ad also generated interview requests from BBC, CNN, AFP, and al-Jazeera, as well as an ostensibly friendly call from state

security in advance of International Anti-Corruption Day on Dec. 9.

¶15. (SBU) The Arab League also took up the issue in Cairo in November with a conference to discuss procedures for bringing members' anti-corruption laws and institutions into accordance with the U.N. Convention Against Corruption. A league official told econoff that the meeting was intended to develop an Arab consensus leading into the first conference of state parties to the convention in Amman (ref E).

¶16. (U) The Egyptian Center for Economic Studies, an independent, pro-reform think-tank, recently held an anti-corruption seminar featuring a former International Monetary Fund official who said that small enterprises suffer the most from corruption and that in fact they have trouble surviving without paying bribes. Likewise the opposition movement Kefaya published a 274-page report in July titled "Corruption in Egypt: The Black Cloud is Not Disappearing." The report, a conglomeration of international studies and stories from unreliable local newspapers, concludes that corruption has permeated all levels and aspects of Egyptian society (ref F).

¶17. (SBU) Opposition figures who have raised concerns about corruption, including Kefaya members, Sadat, and Ayman Nour, have often found themselves the target of corruption charges from the government and pro-government media commentators (ref G). Such accusations not only tend to stifle discussion of corruption, they muddy the waters for Egyptians on the street who keenly sense the problem of corruption but tend to blame all authority figures indiscriminately.

The "Clean" MB

¶18. (U) The few political figures who have consistently protested government graft without being charged in return include the Muslim Brotherhood (MB), who have made corruption a signature issue. Since the start of the new parliamentary session in November, MB parliamentarians have raised concerns about misappropriation of public funds in media city and Sinai Coal Company, as well as corruption in Qasr el Aini Hospital. During the last session, MB parliamentarians criticized corruption in the security services and health and transportation sectors, among others.

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International assistance, mixed GOE response

¶19. (C) Ashour, the anti-corruption expert from Alexandria, told econoff that Transparency International has been slow to open an office in Egypt because local activists who offered their support are affiliated with the NDP and appear to want to use the organization for political ends. However, he said some members of the government do appear committed to fighting corruption, such Minister of Trade and Industry Rachid Rachid and other economic reformers.

¶20. (SBU) USAID has begun working with the government to promote transparency and to strengthen the anti-corruption activities of civil society groups. New programs aim to make the national budget more comprehensible to parliament, NGOs and citizens. USAID also plans to help draft a new Freedom of Information Law based on the U.S. model and to prepare the GOE for ratification of the Anti-Bribery Convention of the Organization for Economic Cooperation and Development (OECD). Among USAID's other anti-corruption activities are support for research on corruption, training for journalists, and support for public-awareness campaigns.

¶21. (U) Other donors are also taking up the issue. The

Netherlands is supporting a new program with the Ministry of Investment to promote transparency, while the World Bank sponsored a roundtable discussion last week to solicit advice from Egyptian experts on the nature of the problem and recommended solutions.

¶22. (C) On an international level, Egypt is a signatory to the U.N. Convention Against Corruption and participated in the Amman conference. But Ashour said that while the government is taking small steps against corruption and prosecutors may pursue individual cases, the government has not yet developed a national strategy or engaged in institutional reforms necessary to address the problem comprehensively.

Impact on Business

¶23. (SBU) Business contacts ranging from the American Chamber of Commerce to the Egyptian Junior Businessmen's Association to a dairy farmer in a rural corner of the Nile delta told econoff that while corruption exists in Egypt, the bigger impediments to business are a lack of transparency and consistency in government operations and procedures. Egypt ranked 165th out of 175 nations in the World Bank's most recent "Ease of Doing Business" report. While the report did not take into account recent improvements from economic reforms, and foreign direct investment has been increasing sharply here, economic contacts agree that the business climate is often difficult and unpredictable.

¶24. (SBU) The difficulty of dealing with licenses, paying taxes, and enforcing contracts may create an impression of corruption when the problem is actually inefficiency. A Lebanese owner of an Ismailia textile company said that he received approval for a new factory in March 2006, broke ground in April, and was exporting by November, moving quickly thanks to his decades of experience operating in Egypt. He said a competitor from the Gulf who is new to the country is lagging far behind, simply because he did not know whom to talk to and where to go for approvals. To the extent that these problems do stem from official corruption, efforts to increase efficiency and transparency -- such as USAID programs to streamline customs procedures and a program sponsored by the Egyptian Junior Businessmen's Association to improve corporate governance -- will have the secondary effect of reducing opportunities for graft.

¶25. (C) COMMENT: Civil-society activists and economic reformers are speaking out about the genuine economic damage done by corruption, while the government's attempts to co-opt the issue indicate an awareness that corruption is a potent political weapon in the hands of the opposition. These trends are creating a growing, if still nascent, anti-corruption constituency. We intend to continue ramping up our anti-corruption efforts, perhaps by encouraging and

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supporting Egyptian compliance with its international obligations, while recognizing the challenges of uprooting this longstanding problem.
JONES